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15 October 1982

MEMORANDUM FOR: Ambassador Charles Meissner, Special Negotiator for Economic Affairs, US Department of State 25X1

FROM: [redacted] 25X1
Deputy Chief, East European Division, Office of European Analysis

SUBJECT: Review of Economic Performance Under the 1981 Paris Club Agreement [redacted] 25X1

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1. Attached is a copy of the paper you requested in your memorandum of 1 October. It was prepared by [redacted] the East European Division, Office of European Analysis to whom requests for clarification may be directed [redacted] 25X1 25X1

2. [redacted] The last section of the paper on the lessons to be learned for other reschedulings is per your request and not meant to be included as part of the paper on Polish economic performance. [redacted] 25X1 25X1 25X1 25X1

[redacted] 25X1

Attachments:
As Stated

EURM 82-10106

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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

15 OCTOBER 1982

Poland: Review of Economic Performance Under the 1981 Paris Club Agreement

Major Conclusions

In 1981 Poland fell far short of meeting the economic targets contained in the April 1981 rescheduling agreement, but this year it will attain or even overshoot many of the 1982 targets. In 1981, Poland was unable to take many of the corrective measures needed to stabilize the economy because most of these steps involved painful austerity requiring lengthy negotiations with Solidarity. During the year, reduced working hours, labor problems, and shortages of imported raw materials led to slumping production and exports while the import bill was kept high by massive food imports. Poland received fewer credits than in previous years, and these were used to pay debt service rather than to import badly needed raw materials for industry. [redacted]

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In 1982 the martial law regime, which could disregard public opinion, enacted a strong austerity program that raised prices, slashed imports and drove down living standards. The outgrowth of these measures has been a small trade surplus with the West. The regime has succeeded in arrest the decline in production, albeit at a very low level, mainly by imposing longer working hours and strict martial law controls in extractive industries. Improvement in the

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This memorandum was prepared by [redacted] East European Division, Office of European Analysis. It was requested by Ambassador Charles Meissner, Special Negotiator for Economic Affairs, US Department of State. Comments and questions are welcome and should be directed to [redacted] Chief, East European Division, Office of European Analysis, [redacted]

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trade account, however, has been largely offset by further shrinkage in Western credits. Hence Poland has been able to pay only a small share of its debt service obligations. The dramatic improvement in the 1982 current account balance stems mainly from failure to make required interest payments. [redacted] 25X1

For the near term, Poland's ability to honor existing debt service obligations will be extremely limited because, with only a small trade surplus, ability to pay will be determined by the magnitude of new medium and long term credits. According to the Poles, most of the $893 million in new credits received in the first half of 1982 were French and Canadian grain credits, which have not been extended for the second half. Therefore, the Poles probably will have limited funds for debt payments for the rest of the year and may be hard pressed to meet the commitments from the 1982 rescheduling agreement with private banks. This means that there might be no money for payments to government creditors. Not surprisingly, the Poles are now interested in a three year debt moratorium with creditor countries. [redacted] 25X1

For the longer term, the regime has not instituted any policies which would lead to sustained economic recovery and better balance of payments performance. Government programs to reduce living standards and investment do not provide the basis for long term recovery through productivity increases. Moreover, the regime has not adopted either political or economic policies which would result in new infusions of Western credit--perhaps the most important requirement for an early economic revival. [redacted] 25X1

General Appraisal of the Report on "The Economic Situation in Poland After the Second Quarter of 1982" 25X1

Poland obligated itself as part of the April 1981 rescheduling agreement with creditor countries to follow the internal and external policies laid out in the Report on Economic and Payments Situation, April 1981, which aimed at the improvement of its balance of payments situation. Specific current account targets with both socialist and market economies contained in the April Report were emphasized in an Allied Minute to the Rescheduling Agreement. Poland also agreed to provide similar reports at semiannual meetings which would update progress on the economic stabilization program and on external account targets. 25X1

Poland subsequently provided Report II on the Economic and Payments Situation to the Paris Club creditors in September 1981, which reviewed its performance in the six month period beginning in April. The refusal of Western creditor countries to meet with the Poles following the imposition of martial law allowed the Poles to ignore the requirement to supply further reports. The Poles, however, supplied private bankers with a Report on the State of the Polish Economy at the End of 1981 in March 1982 and the Economic Situation in Poland After the Second Quarter of 1982 in August 1982. The latter report was also supplied by Polish officials to Western government creditors. 25X1

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The August 1982 report is far inferior to earlier reports provided to creditors monitoring Poland's efforts to improve its balance of payments situation. The August report primarily discusses performance for the first six months of 1982 and does not present Poland's plans, policies, and goals for the full year or the medium term. Specifically, early this year Poland revised its planning process for 1982, issuing quarterly plans for the first half of the year and a six month plan for the second half. The August Report does not include the revised targets given in these plans. Moreover, the Report contains much less data than earlier reports, and the data that are provided are often not presented in the most useful format. For example, the balance of payments table with the West is not on a hard currency basis; instead it includes trade in clearing currencies. Furthermore, there is no breakdown by source for credits received and debt service paid. 25X1

The following analysis assesses Polish economic performance in 1981 and January-June 1982 in comparison with the targets established in the April 1981 rescheduling agreement with creditor countries. This paper discusses: 1) hard currency trade and the current account, 2) trade and payments with socialist countries, 3) domestic targets, 4) review of policy commitments, 5) lessons to be drawn from Polish rescheduling, and 6) a list of questions that need clarification from the Poles. 25X1

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Analysis of Compliance with Targets in April 1981 Paris Club Agreement

Hard Currency Trade and Current Account

The Poles met overall current account targets with the West for 1981 and appear to be well ahead of targets so far this year. These results have been achieved by a combination of sharp cuts in imports and non payment of certain interest obligations.

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1981 Peformance

In 1981, Poland ran a hard currency current account deficit of $2.1 billion, compared with the target of a $3.0 billion deficit (see table 1). The Poles reduced imports by about $1 billion below the target in the rescheduling agreement. At the same time, exports plummeted because of the fall in non-farm production and a poor 1980 crop so that Warsaw ended the year with a $750 million trade deficit, only slightly more than the $700 million target. Net receipts of $800 million from services were about $400 million above targets for undisclosed reasons; the March 1982 report said that net receipts were less than $500 million. The major factor leading to an improvement in the current account balance, however, was that Warsaw paid only $2.3 billion in interest due to creditors in 1981, $500 million below what they projected was due in their April 1981 Report. Their explanation for the failure to make these payments was a lower than expected net inflow of medium-and long term credits ($1.8

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billion versus a projected $3.2 billion) and a more than $800 million outflow of short term capital. These negative capital account developments were only partially offset by net "extraordinary" financing of $1.8 billion, primarily hard currency assistance from the USSR. 25X1

<u>January-June 1982 Performance</u>

The Poles did not establish any mid-year current account targets for 1982, and six month results therefore must be considered in the context of targets for the full year as given in the April 1981 document. In January-June 1982, the current account deficit of $0.6 billion was running well below the $2.5 billion target for the year. The $111 million trade surplus (payments basis) exceeded their goal of trade balance for the full year. Once again, however, interest payments fell far short the amount projected, totaling only $0.9 billion versus the $3.1 billion foreseen for the entire year. As in 1981, the major reason was a shortfall in net medium-and long-term credits. The Poles had expected to receive a net inflow of $2.8 billion for the year; in the first six months the actual inflows were only $0.7 billion. 25X1

If we look at the real flow of goods, Polish performance was even better. According to Polish data reported on a customs basis, trade was balanced in 1981 and Warsaw ran an $800 million trade surplus in the first six months of 1982. The Poles claim that the results based on payments data were poorer than results

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in customs data because they must pay cash for imports and extend normal trade credits for their own exports. This means that there was an $800 million net flow of goods from Poland in the first six months of 1982 even though the payments surplus was only $111 million. [redacted] 25X1

<u>Hard Currency Exports by Commodity</u>

The Poles did not meet their export targets for 1981 and will fall far short this year. In 1981 exports fell 26 percent, compared with 1980, and were 16 percent below the target in the April Report. About half of the export drop was in fuels, chiefly coal. Exports of coal to the West slumped from 20 million tons in 1980 to eight million tons in 1981; the target was 15 million tons. Exports to CEMA partners of seven million tons were well below the target of 10-12 million tons. Food, livestock and other material exports also declined sharply, reflecting domestic shortages. [redacted] 25X1

The export target in the April Report for 1982 was 37 percent above the actual 1981 result; nevertheless, exports dropped by another 7.5 percent in the first six months of this year. Exports of coal and other minerals have rebounded in 1982 as production levels have been raised by compulsory Saturday work and martial law controls. In the first six months, exports of coal to the West jumped 28 percent in volume and 39 percent in value; exports of copper and sulfur were also up. Exports of manufactures dropped in virtually every category, reflecting reduced levels of production. [redacted] 25X1

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Hard Currency Imports by Commodity

The Poles have cut imports drastically in order to improve their hard currency trade and payments position. Imports from the West declined by 36 percent in 1981 compared with 1980, or 13 percent more than the April Report target. Imports of food and livestock increased 7 percent because of Polish food shortages, and their share of total imports from the West climbed to 40 percent from 24 percent in 1980. Imports in nearly all other categories dropped sharply: fuels 71 percent, raw materials 39 percent, chemicals 44 percent, other materials 57 percent and machinery and equipment 44 percent. In the first half of 1982, the Poles slashed imports by 41 percent compared with the same period of 1981 to achieve a trade surplus. They tried to protect industrial production by concentrating cuts in areas other than industrial materials. Imports of capital goods, for example, were slashed by 58 percent, foodstuffs by 50 percent and farm produce by 58 percent. Chemical product imports--a major industrial input--were cut by only three percent. 25X1

Trade and Payments with Socialist Countries

The Poles have maintained a net resource inflow from their socialist allies, although the level dipped this year. Virtually the entire net resource inflow derives from trade with the USSR, as the other East European countries balanced their trade with Poland. In 1981, Poland's current account deficit of $1.9 billion exceeded the planned $1.7 billion (see table 2). A trade deficit

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of $2 billion was $200 million over the target and accounted for virtually the entire current account deficit. In the first six months of 1982, the current account deficit amounted to only $0.3 billion, compared to the $1.3 billion deficit forecast in the April Report for all of 1982. The major factor was the much smaller trade deficit with the USSR. Although the trade deficit with the socialist countries may grow more rapidly in the second half of this year, it is unlikely to reach the $1.5 billion target in the April Report. 25X1

In the first six months of this year, the Poles boosted exports to other socialist countries by 12 percent while imports grew by only one percent. Exports of fuel and energy jumped 63 percent, in large part because coal production was up and demand for coal in the West was soft. Meanwhile, Polish imports were held down because the Poles asked their allies to reduce capital good exports consistent with cutbacks in Polish investment plans. Polish imports of capital goods declined 49 percent, while imports of chemicals increased 16 percent, lumber and paper 21 percent, light industrial products 8 percent and foodstuffs 21 percent. 25X1

Targets for the Domestic Economy

Fulfillment of Targets

The Polish regime did not meet most of the 1981 targets for domestic growth specified in section III, paragraph 3 of the document attached to the April rescheduling agreement (see table 3).

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-- National income fell 13 percent in 1981. The plan was to hold the decline to 9 percent.

-- Industrial production was 11 percent below the 1980 level in 1981. The target was a 10 percent decrease.

-- Coal production was 10 million tons below the 1981 target, while copper output was 13,000 tons below plan. As a result, coal exports were 4 million tons below plan, while copper exports were 17,000 tons less than the target. 25X1

The reduction in working hours, especially in the extractive industries, low labor productivity and shortages of imported Western raw materials were cited by the Poles as the main reasons for their failure to fulfill the plans. 25X1

The one bright spot in the economy was the agricultural sector, where output rose 4 percent compared to the 3 percent planned; grain production was 200,000 tons above the target. In addition, plans to cut investment by around 25 percent were fulfilled. 25X1

The Polish economy will meet or surpass some of the important 1982 targets specified in the April agreement.

-- Coal production in 1982 is likely to be 16 percent above the 1981 output, about 3 percent above the April 1981 target.

-- Agricultural production will be 6 percent greater than 1981 output, about 3 percent above plans.

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- Grain production is 1.5 million tons above last year, 700,000 tons above target.
- Grain imports may be 3.5 million tons in 1982, about 1.5 million tons below plans.
- Investment outlays will again decrease, perhaps by 28 percent, while the same level was planned for 1982. 25X1

National income, however, may be 6 percent less than in 1981; the target called for an increase of 2.8 percent. Industrial production probably will be about 5 percent below last year, while a 5.5 percent increase was planned. Copper and sulfur production in 1982 may also be below the April 1981 targets. 25X1

Coal production increased primarily because of the increased working hours in the industry, whereas good weather again helped raise crop output above expected levels. Investment outlays were again cut by the regime, in part to conserve imported raw materials. Plans for overall industrial production, however, continue to be unfulfilled due to the lack of raw materials. Production of cotton textiles in the first six months of 1982, for example, was 16 percent below the same period in 1981, while automobile output was 29 percent below last year. 25X1

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Review of Commitments on Economic Policy and Reform and Actual Implementations

Austerity Measures

The April 1981 report specified that an austerity program would be initiated to improve the balance of payments situation. The program, including increases in wholesale and retail prices and reductions in consumption levels and real wages, was introduced in the months following the implementation of martial law, ahead of the schedule implied in the April 1981 report.

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Wholesale prices were raised in January 1982, and retail prices were increased by massive amounts on major food items in February. Enterprises have enacted some further price increases subsequently. In the first six months of 1982, the cost of living climbed 104 percent while workers' incomes increased only 58 percent, and supplies of goods in retail markets declined by 13 percent. Consequently, food lines have almost disappeared, but some consumers cannot afford meat and other better quality foodstuffs.

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The budget deficit for 1982 will be lower than mentioned in the April 1981 report. The budget bill passed in July 1982 projected a deficit of 150 billion zlotys for this year, compared to a 220 billion zloty deficit projected last year. According to the Minister of Finance, the deficit was reduced by the stabilization tax, which is levied on enterprises whose profits are greater than 10 percent of production expenses.

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The draft three year plan for 1983-85 continues the austerity program. Rationing may not end by 1986, when consumption is to be slightly lower than before 1980. The plan even calls for restoration of the six-day workweek in industries which use raw materials inputs. Militarized industries, such as coal and copper already have a six day week. [redacted] 25X1

Investment Policy

According to the rescheduling agreement, investment was to decrease in the years 1981-83 to improve the balance of payments situation. Food production was to be given priority in investment outlays, while in industry preference was given to small scale investment projects. Many highly capital intensive projects were to be eliminated. [redacted] 25X1

Most of these policies were implemented. Investment outlays were reduced by 25.6 percent in 1981 compared to 1980. In the first six months of 1982, the amount of state investment was 28 percent below the same period in 1981. In 1981, however, the share of investment in agriculture did not increase. Since overall investment was lower than in 1980, real investment in agriculture fell and in fact was lower than in 1975. According to press reports, about 1,000 investment projects, including 300 major ones, were unfinished as of August 1982. Many of these projects will not be completed, and the Poles are offering to sell some unused machinery to their CEMA neighbors, seeking new domestic users for plants and equipment among profitable

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enterprises, and looking for Western and CEMA partners for joint capital venture projects. 25X1

Agricultural Policies

Warsaw did implement some measures mentioned in the April 1981 Report to encourage agricultural production. Earlier this year, the regime secured parliamentary approval of several measures that were introduced before martial law, including bills liberalizing farm inheritance and pensions and increasing the maximum farm size from 50 to 100 hectares. Reforms of the state farm system were introduced in July 1981. 25X1

Subsequently, however, some policies have been introduced which are disincentives to agriculture. Although Warsaw raised purchasing prices by about 25 percent in 1981, wholesale farm input prices were raised by 36 percent and the cost of services supplied to farmers by 330 percent. The regime estimates that farmers' real income will decrease by at least 20 percent in 1982. The state has refused to sell key inputs to farmers who have not made sufficient sales to the state and threatened legal action against farmers who have not fulfilled contracts. Furthermore, because of procurement problems during the first six months of martial law, the regime has threatened to procure the grain from private farmers by force, if necessary. Warsaw may still move to compulsory procurement if it is unable to buy 5.5 million tons of grain from farmers to meet domestic needs this year. The procurement system would revert to a form of compulsory

deliveries which was used during the 1950s and 1960s with no more than limited success. 25X1

Economic Reform

According to the 1982 rescheduling agreement, Poland promised to implement a form of economic reform but did not provide precise plans. Central planning still would steer the economy, but lower economic units would have a greater role in decisionmaking. Enterprises would become self-governing and self-financing and would allow self-management for the workers. Under self-government and self-financing, plant managers would be largely free to make production decisions without reference to higher authorities. The market would guide managers in these decisions and their sole goal would be to maximize profits. Enterprises unable to make profits would be forced to close. The workers' self-management provision called for the development of greater worker participation in enterprise decisionmaking. 25X1

Enterprise Reforms

The martial law regime has delayed full implementation of the reform policies in order to maintain tight central control over the economy. Moreover, the self-governing, self-financing and self-management reforms, partially introduced earlier this year have generated problems. Widespread shortages of consumer goods and lack of competition has sometimes enabled plant mangers to raise prices. Some enterprises reportedly have earned profits even though they have reduced output. 25X1

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Although the April report warned that unprofitable enterprises would close and 700,000-800,000 workers would lose their jobs when the reforms were implemented, the regime has not taken such measures. Because the self-financing reform was only partially implemented, no closures have yet occurred. The largest single item in the budget (46 percent) is still subsidies to enterprises and other economic units. The Polish National Bank reported that 687 enterprises were refused credit earlier this year because of their poor financial status. By August, however, fewer than 30 of these firms were in danger of liquidation. The enterprises had been given bank credits on the basis of recovery plans or had been permitted to charge prices to cover deficits. 25X1

Enterprises still have little incentive to get rid of redundant workers. A worker shortage has occurred because of labor hoarding by some enterprises and the introduction of an early retirement system last year. This year about 600,000 workers have retired early, a figure much higher than expected. Over 300,000 vacancies exist now in enterprises while only 20,000 are seeking work. 25X1

Introduction of the self-management reform was postponed following the implementation of martial law. Although the regime still contends that workers' self-management is a fundamental element of economic reform, Deputy Premier Rakowski recently announced that the time was not yet right for its

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implementation. He also indicated that enterprise party committees would oversee the workers councils when self-management is introduced into plants. [redacted] 25X1

Other Economic Reforms

The price law enacted in February 1982 gives the government power to fix the prices of many consumer goods and services, prices of the means of production and services which affect the cost of production, and the prices of basic agricultural produce purchased by the socialized economy. This law places many more goods under central control than originally indicated in press articles last year. The Ministry of Prices also has expanded the fixed price list to include the prices of some goods formerly set by enterprises. [redacted] 25X1

The Polish regime, however, has undertaken an exchange rate reform. The new zloty exchange rate unifies the official and tourist rates and is adjusted monthly. Although this is an improvement over the previous arrangement, the rate is not yet totally realistic. [redacted] 25X1

According to Polish press reports in September, a draft reform of the pay system is currently in discussion that would tie pay increases to increases in production or worker efficiency. A new tax, however, would be placed on higher incomes. [redacted] 25X1

The regime has not introduced any major programs to boost exports or reduce energy consumption, as specified in the April report. In August, the regime promised to pay extra income to

workers in export producing enterprises, but it has not yet put the program into effect. The Polish press reported in June that energy efficiency has not improved since last year. 25X1

The Polish Experience: Lessons For Other Reschedulings

As cutbacks in credits and other problems bring some East European and CEMA countries to the brink of bankruptcy, Western governments and banks may look to their experience with Polish rescheduling for some lessons on how to approach debt rescheduling for other centrally planned economies and for Yugoslavia. The following is a first look at what we have learned from the Polish experience. 25X1

The Main Objective of Rescheduling: Debt Repayment or a Political Tool?

In several respects the experience of Western governments and banks in dealing with the Polish debt crisis may not be very relevant to possible future debt reschedulings by other East European economies. The Polish situation was unusual in the following ways:

- -- the large size of the debt and debt service burden;
- -- the fact that Poland is the first East European economy to reschedule;
- -- the fact that Poland (unlike Hungary, Romania, and Yugoslavia) is not a member of the International Monetary Fund (IMF); and

-- the particular nature of political and social dynamics within Poland. 25X1

In addition, the West used the granting and withdrawing of debt relief as a political tool: first, to try to encourage the development of a more liberal and pluralistic society within Poland; and then later, to encourage the Polish regime to lift martial law. Western governments have not achieved their <u>political</u> objectives, and little progress has been made in achieving the major <u>economic</u> goal of debt relief--to ensure that Poland will be able to repay its debt over the medium term. 25X1

Mixing of economic and political objectives may also influence the debt rescheduling process for other financially troubled East European countries. The significance of political factors may set East European apart from the LDCs who have not had their negotiations on debt relief tied to political conditions. While keeping in mind the special features of the Polish case, the following are some of the lessons we have learned from the first East European rescheduling:

<u>Better Coordination Among Creditors</u> The Polish experience illustrates the importance of trying to achieve close cooperation among creditors in terms of comparability of treatment, information-sharing, and decisions on targets and economic policy. Only a broadly coordinated package of debt relief--granted on similar terms and possibly combined with aid or additional credits--could have prevented the inequitable leakage

of funds from Poland to non-participating creditors and to banks who refused to reschedule interest. Better cooperation among creditors also might have resulted in the accumulation of more accurate and up-to-date information on Poland's economic performance and its honoring of debt service obligations. 25X1

<u>A More Realistic Program For Economic Recovery</u> In most rescheduling exercises, the hope is that the debt relief provided will allow the debtor country a breathing space during which its government can implement an effective stabilization program. The objective is to achieve a sustainable improvement in economic performance in order to run current account surpluses, which eventually will permit repayment of debt. In agreeing to reschedule, creditors need to assess realistically what the country needs in terms of debt relief, additional resources from abroad during the adjustment period, and policy changes in order to ensure that current account surpluses can be achieved over the medium term. 25X1

In the case of Poland, the failure of banks to reschedule interest, incomplete rescheduling with other creditors, and lack of substantial new credits has meant that the Poles have been forced to squeeze the domestic economy. Without a larger inflow of imports, Warsaw cannot mount an economic recovery program that will lead quickly to the kind of export performance needed to repay debt to Western creditors. 25X1

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IMF Membership The fact that Poland is not a member of the International Monetary Fund (IMF) made the process of deciding on a stabilization program and monitoring it much more difficult for both Warsaw and its creditors. IMF membership could have provided a multilateral and politically neutral framework for setting consistent targets, deciding on appropriate policies, and monitoring the implementation of a program to deal with Poland's domestic and external economic problems. Regular IMF consultations with Poland and reviews of economic performance could have helped both Paris Club members and banks in assessing Poland's progress in implementing stabilization measures. IMF reports could have eliminated some of the statistical problems that have hindered our understanding of Polish economic developments. Finally, IMF credits could have played a vital role in giving the Poles a real breathing space during which to deal with their economic problems, as well as the funds to allow them to finance a net inflow of resources in order to revive economic growth. 25X1

In pointing out the usefulness of IMF membership, we are not suggesting that it always cures the economic ills of countries experiencing balance of payments and debt servicing problems. There are numerous examples of countries that have encountered serious financial problems while abiding by the conditions set down in IMF programs; this has been the case recently with Romania and Yugoslavia. The problem is that IMF programs do not attack

all the problems facing member countries, particularly, those that relate to systemic and institutional weaknesses. The problem for the East European members of IMF is that some of the constraints that they face are embedded in the institutional structure of their economies and in ideological tenets. There is little chance that IMF membership or Western debt relief alone would motivate them to alter their ways of operating. 25X1

At the same time, IMF membership would be more beneficial to Hungary, Romania, and Yugoslavia if IMF staff members were more expert in understanding how East European economies function. This would aid in their policy recommendations and in formulating stabilization programs. The poor record of the IMF, particularly with Romania, underscores this problem. 25X1

Myths About Centrally Planned Economies. Our experience with Polish rescheduling has exploded some myths about centrally planned economies. In the 1970s the prevailing wisdom--accepted by governments and banks alike--was that these regimes could and would impose strong controls to adjust their economies quickly when problems arose. In Poland's case, the stabilization measures passed in the late 1970s were not implemented soon enough or effectively; by 1980 it was clear that they were not sufficient to correct the underlying problems and the debt continued to rise. Moreover, in 1980 and 1981, the Polish government found its hands tied by pressure to negotiate with Solidarity; this led to delays and failure to pass needed stabilization measures. 25X1

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The Polish experience also destroyed the myth of a Soviet umbrella. While Soviet assistance was considerable, particularly in 1981, it was not of the magnitude that banks had counted on and did not protect Poland from rescheduling and de facto default.

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Finally, the East European countries have been successful for decades in convincing creditors that they were not able to provide complete data on their balance of payments and debt positions, either because these were state secrets or because of the poor quality of their statistics. In dealing with Poland we have discovered that CEMA members possess good and detailed data--not only on their external accounts but on all aspects of their economic performance. In addition, we have learned that they will release such data when it suits their purposes. This should be helpful in dealing with other East European countries, who should be urged to publish and provide their creditors with better and more complete information. This would improve our ability to assess their performance and the significance of their debt servicing problems. [redacted] 25X1

Questions

1. What are the plan targets for the full year of 1982 and for 1983-85? We should also ask for a description of policies designed to achieve the plan goals.

2. What are the projections for consumption by the population and for investment for 1982 and 1983-85? We should ask for as much specificity as possible; i.e., by food or consumer good category for consumption and by sector for investment.

3. What is the timetable for the implementation of economic reform measures? What impact has the reform already had on the economy, and what further measures are planned?

4. We should ask the Poles for a breakdown of debt service payments by type (principal and interest) and by recipient (private versus government creditor and by individual country). We should ask for a similar breakdown for medium- and long-term credits received.

5. The August 1982 Report says that Poland will import 3 million tons of grain in 1982-83. How is this grain to be financed?

6. What is the 1982 balance of payments account with the West in convertible currencies only?

7. The discrepancy between trade on a customs basis and trade on a payments basis is puzzling since the lag involved in paying cash for imports while extending short-term credits for exports should be short. Yet Poland reports a $700 million difference in 1981 and large differences in both quarters of 1982. We should ask the Poles for an explanation.

8. A breakdown by major commodity category is given for Polish exports to the West. We should ask for similar data with socialist countries.

9. The Poles indicate in the August Report a net receipt of $1.778 billion. What is included in this number? Are there any indications that socialist countries will provide further hard currency assistance?

TABLE 1. Poland: Current Account Targets and Performance with Market Economies, 1981, 1982
(million US$)

	Target 1981	Results 1981	Target 1982	Results 1982-I-VI
Current Account Balance	-3,000	-2,059	-2,500	-609
Goods				
Exports	6,500	5,482	7,500	2.351
Imports	7,200	6,233	7,500	2,240
Balance	-700	-751	------	+111
Services and Transfers				
Inflows	2,000	1,933	2,200	385
Outflows	1,600	1,138	1,700	246
Balance	+400	+795	+500	+139
Interest on Credits				
Inflows	100	169	100	37
Outflows	2,800	2,272	3,100	896
Balance	-2,700	-2,103	-3,000	-859
Capital Account Balance	+3,000	+2,059	+2,500	+609
Credits Received, Medium and Long Term				
Inflows	10,100	4,930	9,400	893
Outflows	6,900	3,178	6,600	222
Balance	+3,200	+1,752	+2,800	+671
Net Credits Granted, Medium and Long Term	-200	-420	-300	-12
Net Short Term Credits	------	-841	------	-112
Net Extraordinary Financing	------	+1778	------	+125
Other	------	-210	------	-63

TABLE 2. Poland: Current Account Targets and Performance with Socialist Countries
(million US$)

	Target 1981	Results 1981	Target 1982	Results 1982-I-VI
Current Account Balance	-1,656	-1,924	-1,315	-337
Goods				
Exports	8,564	7,571	9,400	3,974
Imports	10,400	9,623	10,900	4,422
Balance	-1,836	-2,052	-1,500	-448
Services and Transfers				
Inflows	NA	686	NA	383
Outflows	NA	485	NA	185
Balance	+255	+201	+295	+198
Interest on Credits				
Inflows	NA	3	NA	3
Outflows	NA	76	NA	90
Balance	-75	-73	-110	-87
Capital Account Balance	+1,656	+1,924	+1,315	+337
Credits Received				
Inflows	+1,700	892	1,000	73
Outflows	100	265	300	57
Balance	+1,600	+627	+700	+16
Other Capital Account	+56	+1,297	+615	+321

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TABLE 3: Fulfillment of Economic Targets

	1981 Target	1981 Fulfillment	1982 Target	Fulfillment I-VI 1982	Projected 1982 Fulfillment
National Income Produced, Previous year = 100	91	87	102.8	NA	94.0
Industrial Production Previous year = 100	90	89	105.5	92.2[1]	95.0
Output of Main Raw Materials:					
Coal (mln. tons)	173	163	182-185	94.8	190
Exports	19	15	25-26	11.7	28
Copper (th. tons)	340	327	350	169.8	340
Exports	160	143	182	76[2]	180
Silver (tons)	675	[illegible]	700	NA	NA
Exports	399	[illegible]	436	193[2]	400
Sulphur (mln. tons)	4.7	[illegible]	5.0	2.3	4.0
Exports	3.4	3.8	3.5	1.0[2]	2.0
Agricultural Production Previous year = 100	103	104	103	NA	106.0
of which Plant Production	116	120	104	NA	97.4
of which Animal Production	100	87	102	NA	111.5
Grain Production (mln. tons)	19.5	19.7	20.5	NA	21.2
Grain Imports (mln. tons)	6.7	4.7	5.0	2.2	3.5
Total Investment Previous years = 100	75	76	100	72	72

1 First Half 1981 = 100
2 Exports to the West

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